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**Economics Editor:**  
Rosanna Mentzer Morrison  
(202) 694-5411  
rosanna@ers.usda.gov

**Managing Editor:**  
John Weber  
(202) 694-5123  
jweber@ers.usda.gov

**Art Director:**  
Susan DeGeorge

**Editorial/graphic assistance:**  
Wanda Reed-Rose

## Growing Trade in Processed Foods

A major global shift away from trade in basic commodities toward high-value and processed food products is underway. Globally, processed and semi-processed food and agricultural products now account for two-thirds of total agricultural trade. Likewise, the fastest growing component of U.S. agricultural exports has been processed food products.

In the context of a rapidly evolving global food and agriculture system, rising incomes and changing food consumption patterns around the globe will continue to influence growth in processed food trade. But, the pace of liberalization in food and agricultural trade and the changing nature of investment and competition in the global food system will also be important. This issue of *FoodReview* looks at the myriad factors at play in the growth of processed food trade.

Rising incomes and the globalization of food markets have changed diets and food consumption patterns around the globe. Billions of consumers in developing countries see their incomes growing and their first priority is to improve their diets, both the quantity and variety of food consumed. Many high- and middle-income consumers in other countries, while not increasing their food consumption, are also demanding a wider variety of foods. As a result, there is significant growth in two-way trade of food products, in which the same country both exports and imports products within the same industry. For example, to meet differing consumer tastes and quality preferences, the United States is both a major importer, as well as a major exporter of wine. Two-way trade is an important trade phenomenon, since trade can expand without growth in consumption.

While U.S. exports of processed food products have increased by more than 70 percent over the last 10 years, U.S. imports of processed food products have increased as well. Food imports account for a relatively small share of the total U.S. diet (about 10 percent), but their importance is increasing. Trade provides U.S. consumers with access to a wider variety of foods and beverages—French wines, Canadian seafood, Danish hams, and Jamaican coffees, and the like. Food imports also work to stabilize year-round supplies of many fresh fruits and vegetables and temper overall increases in food prices.

The globalization of food markets is not just about trade. Capital and technology now flow freely across borders. U.S. food processing firms, like Campbell Soup or General Mills, have invested in processing facilities abroad to better serve foreign markets. And, foreign firms, like Nestle and Unilever, are major players in U.S. food sales. Sales generated by foreign direct investment dwarfs trade; estimated sales by foreign affiliates of U.S. food processors totaled nearly \$150 billion in 2000, compared with \$30 billion worth of processed food and beverage exports. Globalization is behind the increasing trend of mergers, acquisitions, and foreign direct investments that are redefining the nature of competition within the global food system.

Protection for agricultural and food products through high tariffs is now one of the major factors restricting world trade. The global average tariff on food and agricultural products is 62 percent, much higher than tariffs on nonagricultural products. The U.S. processed food sector will fail to reach the billions of consumers in the middle-income countries, where the largest growth in food demand will occur, unless the still high barriers to trade are brought down.

John Dunmore  
Deputy Director for Research  
Market and Trade Economics Division